

Rating Action: Moody's affirms Wright State University's (OH) Baa2; outlook negative

27 Jul 2018

New York, July 27, 2018 -- Moody's Investors Service has affirmed the Baa2 on Wright State University's (OH) approximately \$63 million outstanding General Receipts Bonds. The outlook remains negative.

RATINGS RATIONALE

Wright State University's Baa2 is supported by its improved financial position in fiscal 2018 relative to fiscal 2017. With new leadership in place, the university implemented sizeable expenditure reductions that management reports will restore balanced operations and help increase operating reserves in fiscal 2018. However, multiple years of material deficit operations prior to fiscal 2018 resulted in significant deterioration in university liquidity, leaving it with very little financial flexibility. Even with improved financial controls, restoration of liquidity will take many years given the university's plan to add \$3-\$6 million annually.

While the university has demonstrated a commitment to right sizing expenses and stronger budgetary oversight, revenue pressures remain. Despite maintaining a regionally important role as a low-cost higher education provider with a niche in sciences and technology, declining statewide high school graduates and tuition pricing constraints have suppressed net tuition revenue. Additionally, state funding, the university's second largest revenue source, remains relatively stagnant. Failure to restore revenue growth will make maintaining fiscal balance challenging. After the magnitude of expense reductions implemented in fiscal 2018 and budgeted for fiscal 2019, the university is left with less additional flexibility to reduce expenses without harming core programming. Exposure to ongoing collective bargaining negotiations adds reputational and financial risks.

RATING OUTLOOK

The negative outlook acknowledges the risks associated with an ongoing collective bargaining negotiation with university faculty. It also acknowledges a recent history of financial deterioration through fiscal 2017, and ongoing revenue pressures that will continue to challenge operations.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Sustained improvement in cash flow and debt service coverage
- Successful execution of plan to gradually improve liquidity position

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Failure to resolve faculty contract dispute in a way that prevents disruption in university operations or erodes its financial position
- Deterioration of financial position evidenced by return to deficit operations and reduction in flexible reserves
- Sustained and material softening in student demand

LEGAL SECURITY

All bonds are secured by a broad pledge of the university's General Receipts, which includes all legally available revenue of the university, except money raised by taxation, state appropriations, or restricted gifts. There are no debt service reserve funds.

USE OF PROCEEDS

Not applicable.

PROFILE

Wright State University is a moderate size regional public university with its main campus situated just outside of Dayton, Ohio. WSU offers a broad menu of undergraduate, graduate and professional level offerings, including a School of Medicine. In fall 2017, the university served a total headcount of 17,108 students.

RATING METHODOLOGY

The principal methodology used in these ratings was Higher Education published in December 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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